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FISCAL IMPACT STATEMENT

LS 7331 **NOTE PREPARED:** Apr 7, 2007
BILL NUMBER: HB 1478 **BILL AMENDED:** Apr 5, 2007

SUBJECT: Taxation.

FIRST AUTHOR: Rep. Kuzman **BILL STATUS:** CR Adopted - 2nd House
FIRST SPONSOR: Sen. Kenley

FUNDS AFFECTED: X GENERAL **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: (Amended) *State Assumed Levies:* This bill calculates each year a state property tax replacement amount for each county. It provides that this amount is used to: (1) Replace the amount of tuition support levies imposed in the county in 2008 by school corporations; (2) Replace the amount of the family and children's fund levy imposed by the county in 2008; and (3) Pay each year to the department of correction the county's cost of incarcerating delinquent offenders for 2008.

The bill specifies that the growth after 2008 in tuition support levies and costs for incarcerating delinquent offenders is replaced by the state. It also provides that one-half of the growth in county family and children's fund levies after 2008 is replaced by the state.

This bill eliminates property tax replacement credits after 2007. It abolishes the Property Tax Replacement Fund (PTRF) and the PTRF Board on December 31, 2007, and transfers the balance in the PTRF to the state General Fund.

This bill provides that the Department of Local Government Finance (DLGF) shall adjust excise tax and local option income tax distributions to ensure that distributions for counties and school corporations are not reduced because of the reduction or elimination of the levies.

Homesteads: The bill increases the homestead credit percentage to 28% for 2007 if initial licensing fees are received in 2007 for slot machine gambling games at racetracks. The bill provides that the homestead credit percentage is 4% for 2008, 3% for 2009, 2% for 2010, and 1% for 2011 and it eliminates homestead credits after 2011.

The bill also provides that the property tax standard deduction for homesteads is equal to the lesser of $50,000 or 60% of assessed value.

Rainy Day Fund: The bill provides that the balance in the state Rainy Day Fund at the end of a state fiscal year is appropriated to the state General Fund only to the extent the balance exceeds 10% of State General Fund revenues.

LOIT for Growth: This bill authorizes a county to adopt an additional County Adjusted Gross Income Tax (CAGIT) rate or an additional County Option Income Tax (COIT) rate. It provides that the tax rate shall be set by the DLGF at an amount sufficient to raise tax revenue to replace the estimated increase in the following year of certain property tax levies in the county. The bill provides that in the first year the tax rate is imposed, the tax rate shall be set for each of the following two years. It provides that the rate set for the first year must be twice the amount needed to replace the tax levy growth, and that one-half of the tax revenue in the first year must be deposited in the county stabilization fund.

The bill establishes a county stabilization fund in each county that imposes the additional LOIT rate. It provides that if the certified distributions exceed the estimated replacement amount used to determine the LOIT tax rate, the excess shall be deposited in a county stabilization fund and specifies when money shall be distributed from the county stabilization fund. The bill also provides that the LOIT tax rate may not be reduced or rescinded, but that the rate may be increased each year to replace the property tax levy growth that would otherwise occur in the following year.

LOIT for Tax Relief and Public Safety: This bill provides that if a county has imposed the additional tax rate, the county may impose a 0.05% CAGIT or COIT tax rate for public safety. It also provides that if a county has imposed the additional tax rate to replace the levy growth, the county may impose an additional CAGIT or COIT tax rate for: (1) property tax replacement credits; or (2) an increase in the homestead credit percentage.

LOIT Adoption Deadline: The bill provides that ordinances imposing, increasing, decreasing, or rescinding CAGIT, COIT, and the County Economic Development Income Tax (CEDIT) must be adopted after March 31 and before August 1 of a year and that the ordinances take effect October 1 of a year.

Review Boards: This bill abolishes county boards of tax adjustment on December 31, 2008. It establishes a county board of tax and capital projects review (county review board) in each county on January 1, 2009. The bill provides that a county review board consists of members appointed from various fiscal bodies within the county and specifies that each county review board includes two elected individuals. The bill provides that the county review board has the powers and duties held by a county board of tax adjustment before the county board of tax adjustment is abolished. The bill also provides that the State's Local Government Tax Control Board (Control Board) is abolished December 31, 2008.

Levy Appeals: Beginning in 2009, this bill eliminates certain levy appeals for civil taxing units.

Capital Projects: This bill requires the fiscal body of each taxing unit in a county to do the following every two years: (1) hold a public hearing on a proposed capital projects plan; and (2) adopt a capital projects plan. It requires a capital projects plan to apply to at least the five years immediately following the year the capital projects plan is adopted. It requires a county review board to review and provide a written report concerning each capital projects plan.

The bill provides that a political subdivision may not: (1) begin construction of a capital project; (2) enter into contracts for the construction of a capital project; (3) issue bonds for the capital project; or (4) take certain other actions concerning a capital project; that is a controlled project for purposes of the petition and remonstrance process unless the county review board approves the capital project. It provides that the approval of the DLGF is not required for the issuance of bonds that has been approved by the county review board.

Personal Property Audits: The bill specifies that a person contracted to discover omitted or undervalued property may review only the three assessment years ending before January 1of the year in which a taxpayer receives notice of the person's actions under the contract. It specifies the priority of payments from a special nonreverting fund created for the deposit of taxes resulting from additional assessments on undervalued or omitted property.

Property Tax Reduction Trust Fund: This bill establishes the state Property Tax Reduction Trust Fund consisting of : (1) any initial license fees paid to the state for a license to conduct slot machine gambling games at racetracks; (2) any wagering taxes imposed on slot machine gambling games at racetracks; and (3) any riverboat admissions taxes that would be paid to the Indiana horse racing commission but are replaced by payments from persons conducting slot machine gambling games at racetracks. The bill provides that money in the fund shall be used to pay the cost of increasing the state homestead credit in 2007 and beginning in 2008, money in the fund shall be transferred to the state General Fund to pay one-half of the cost to the state of: (1) providing homestead credits; and (2) making payments to replace the growth in school corporation tuition support levies, the growth in costs incurred by counties for the incarceration of juvenile offenders, and one-half of the growth in county family and children's fund levies.

Circuit Breaker: This bill provides that the circuit breaker credit that is applicable beginning in 2010 to nonresidential property applies to property taxes that exceed 3% (rather than 2%, under current law) of the gross assessed value of the nonresidential property. It also establishes the state Circuit Breaker Relief Appeal Board. The bill provides that beginning in 2008, a political subdivision that will have its property tax collections reduced by at least 2% in a year as a result of the application of the circuit breaker credit may petition the board for relief from the application of the circuit breaker credit and requires a petitioning political subdivision to submit a proposed financial plan to the board. The bill provides that the board may: (1) increase the threshold at which the circuit breaker credit applies to a person's property tax liability; or (2) provide for a uniform percentage reduction to circuit breaker credits otherwise provided in the county; if the governing boards of all political subdivisions in the county agree to that plan.

County Tax: This bill increases the Allen County Innkeeper's Tax rate to 7%. It authorizes Monroe County to adopt an additional COIT tax rate of not more than 0.25% to fund a juvenile detention center. The bill also raises the cap on the Vanderburgh County Innkeepers' Tax from 6% to 8%.

Tax Increment Financing: In certain counties, the bill provides that if a municipality annexes into a neighboring school corporation and a TIF allocation area is established in that territory, the tax increment may be used only for expenditures in that territory.

Abatements: This bill makes certain changes concerning personal property abatement.

Assessments: The bill specifies the assessment methods to be used in the assessment of a water based adult entertainment center, including a riverboat.

Annexation Study Committee: This bill creates the Annexation Study Committee.

Effective Date: Upon passage; July 1, 2007.

Summary of Net State Impact:

Estimated Net State Impact in Millions

	FY 2008	FY 2009	FY 2010
Savings of Traditional PTRC / Homestead	825.2	2,101.8	2,143.6
Assumption of Levies up to 2008 Amount	(1,042.0)	(2,104.9)	(2,145.9)
Assumption of Levy Increases After 2008	0.0	(42.2)	(125.7)
Additional Homestead Credits	(152.0)	(52.1)	(39.6)
Net Impact	**(368.8)**	**(97.4)**	**(167.6)**

Explanation of State Expenditures: (Revised) *State Assumed Levies:*
Levy / PTRC Summary: Under this bill, the state would assume funding of all or part of several local property tax levies. The total cost of the state assumption of levies as outlined below is estimated at $1,042 M in FY 2008, $2,147 M in FY 2009, and $2,272 M in FY 2010. Additionally, the state's expense for traditional PTRC and HSC would be reduced by $825 M in FY 2008, $2,102 M in FY 2009, and $2,144 M in FY 2010.

School General Fund Levy: Under the current and past state budgets, the school general fund levy has been a function of the school funding formula. The levy amount is subtracted from the total formula dollars to calculate the state support amount.

Under this bill, beginning with taxes payable in CY 2008, the levy for the school general fund would be computed by increasing the previous year's levy by 3.5%. Then the amount of state levy assumption discussed below would reduce or eliminate the levy amount that is subtracted from the total formula dollars. The result is that the state support amount will increase by the levy assumption amount.

State Property Tax Replacement Amount: Beginning in CY 2008, the state would no longer pay traditional Property Tax Replacement Credits (PTRC) or Homestead Credits (HSC) . The state currently pays PTRC in the amount of 60% of school General Fund levies attributable to all property and 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. HSC are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Under this bill, each year's statewide total minimum guarantee property tax replacement amount would be allocated to counties in the same proportion as PTRC and HSC were paid in CY 2007. These (replacement) amounts would be used to assume the base levy amounts below.

Base Levy Amount: The CY 2008 school general fund and family and children's fund levies, and county payments to the state for juvenile incarceration would be set as base amounts that would eventually be covered by the counties' replacement amounts.

In order, each county's replacement amount for each year would be used to reduce levies in the county as follows:

The school general fund levy, up to the amount levied in CY 2008;
The county family and children's fund levy, up to the amount levied in CY 2008; and
The levy for juvenile incarceration, up to the amount levied in CY 2008.

The replacement amount that remains, if any, after the levies are eliminated would be used to fund homestead credits in the county.

The statewide total replacement amount is estimated at $2,084 M in CY 2008, $2,129 M in CY 2009 and $2,166 M in CY 2010. On a fiscal year basis, the state's expense for traditional PTRC and HSC would be reduced by $ 825 M in FY 2008, $2,102 M in FY 2009, and $2,144 M in FY 2010. The expense for base levy assumptions is estimated at by $1,042 M in FY 2008, $2,105 M in FY 2009, and $2,146 M in FY 2010. The state would have a net increase in expenses of $217 M in FY 2008, $3 M in FY 2009, and $2 M in FY 2010.

The difference in savings versus expenses by fiscal year is caused by the existing PTRC/HSC payment delay. Under current law, 39.6% of CY 2007 expenses are paid in FY 2007 and 60.4% are paid in FY 2008. Beginning in CY 2008, the payments made to local government in each calendar year under this bill would be divided evenly among the two fiscal years. So, in FY 2008, the state would pay 60.4% of CY 2007 PTRC/HSC plus 50% of the CY 2008 state levy assumption. This effectively eliminates the current payment delay.

Annual Levy Increase: Beginning in CY 2009, in addition to the state assumption of all or part of the base levy amounts, the state would assume:

100% of the increase over the prior year in school general fund levies;
100% of the increase over the prior year in levies for juvenile incarceration; and
50% of the increase over the prior year in family and children's fund levies.

The total state cost of the assumption of the annual levy increases outlined above is estimated at $84.5 M in CY 2009 and $167 M in CY 2010. On a fiscal year basis, the expense for levy increase assumptions is estimated at by $42 M in FY 2009 and $126 M in FY 2010. There would be no expense in CY 2008 or FY 2008.

Homesteads: The total cost of the homestead credits discussed below is estimated at $152 M in FY 2008, $52 M in FY 2009, and $40 M in FY 2010.

The homestead credit percentage for CY 2007 is 20% under current law. Under this provision, the state would provide an additional 8% homestead credit to homeowners for taxes payable in CY 2007. This additional credit would be fully funded outside of the current appropriation for PTRC and HSC. The credit would be paid entirely in FY 2008. The cost of this credit is estimated at $123 M in FY 2008. However, if fees from the initial licensing of slot machines at racetracks are not received in CY 2007, then the CY 2007 homestead credit percentage would revert to 20%.

In addition, the state would pay a new homestead credit equal to 4% in CY 2008, 3% in CY 2009, 2% in CY 2010, and 1% in CY 2011. With consideration of other changes made in this bill, the cost of the credit is estimated at $58 M in CY 2008, $46 M in CY 2009, and $33 M in CY 2010. The homestead credits for CY

2008 through CY 2011 would be paid from the state General Fund. One-half of the cost would be transferred from the Property Tax Reduction Trust Fund to the General Fund..

Review Boards: This bill would abolish State's Local Government Tax Control Board on December 31, 2008. The Control Board is comprised of nine members, including seven voting members and two ex-officio members. All members of the control board receive mileage reimbursement and members who are not state employees receive a salary per diem.

Many duties currently assigned to the state's Control Board would be transferred to the county board of tax and capital projects review created in this bill.

Personal Property Audits: Under current law, a board of county commissioners, a county assessor, or an elected township assessor may enter into a contract for the discovery of property that has been undervalued or omitted from assessment. This proposal directs the DLGF to adopt rules to certify persons who wish to obtain an audit contract.

Property Tax Reduction Trust Fund: The bill establishes this Fund to consist of revenue from the sources listed below in (1), (2) and (3). It is important to note that the revenue sources in (1) and (2), and the Admission Tax replacement revenue source in (3), do not exist under current statute nor are they established under the bill.

(1) Initial license fees to the state for a license to conduct slot machine gambling games at racetracks.
(2) Wagering taxes imposed on the adjusted gross receipts from the conducting of slot machine gambling games at racetracks.
(3) Any Riverboat Admissions Tax imposed under current statute that would otherwise be paid to the Indiana Horse Racing Commission (IHRC) but are instead replaced because of payments dedicated to purses, breed development, and horsemen's associations by persons licensed to conduct slot machine gambling games at racetracks. (Note: In FY 2006, the distribution of Admission Tax collections to the IHRC totaled $17.6 M.)

The Fund is nonreverting and the bill prohibits the State Board of Finance, the State Budget Agency, or any other state agency from transferring or otherwise removing money from the Fund. The bill also provides that money in the Fund is appropriated continuously for the purposes of the Fund. The bill provides that in 2007, the money in the Fund is to be used to pay the cost of increasing the state homestead credit from 20% to 28%. Beginning in 2008, the money in the Fund is to be transferred to the state General Fund in an amount determined by the State Budget Agency. The money must be used to pay 50% of the cost to the state of providing homestead credits, and making payments to school corporations and counties to replace:
(1) the growth in school corporation tuition support property tax levies;
(2) the growth in costs incurred by counties for the incarceration of juvenile offenders; and
(3) 50% of the growth in county family and children's fund property tax levies.

Fifty percent of the cost to the state of providing homestead credits, and making payments to school corporations and counties is estimated at $76 M in FY 2008, $47 M in CY 2009 and $83 M in CY 2010.

Circuit Breaker: Circuit Breaker Relief Appeal Board: This provision would create the state Circuit Breaker Relief Appeal Board. The seven members would include:
(1) The Director of the Office of Management and Budget (OMB), or designee. (Serves as chairperson);
(2) The Commissioner of the DLGF, or designee;
(3) The Commissioner of the Department of Revenue, or designee;

(4) The State Examiner of the State Board of Accounts, or designee;
(5) A nominee of the Indiana Association of Cities and Towns, appointed by the Governor;
(6) A nominee of the Association of Indiana Counties, appointed by the Governor; and
(7) A nominee of the Indiana Association of School Superintendents appointed by the Governor.

Each member would be entitled to travel and other actual expenses. Members appointed by the Governor would be entitled to salary per diem. The board could contract with accountants, financial experts, and other advisors and consultants as necessary. Funding would come from the DLGF's budget. The DLGF would also staff the board. This provision would potentially increase administrative expenses at the DLGF. The additional expense is currently indeterminable.

Assessments: The DLGF would be permitted to adopt rules governing the calculation of an assessment of water based adult entertainment centers using the capitalization of income approach.

Annexation Study Committee: The Committee would have 16 members, and it would operate under Legislative Council policies governing interim study committees. The Legislative Council sets the budget for interim study committees. Authorized expenses of interim study committees are paid from the state General Fund via appropriation to the Legislative Council. Under the most recent Legislative Council Resolution, a committee with at least 16 members received an operating budget of $16,500.

Explanation of State Revenues: (Revised) *Rainy Day Fund:* Under the bill, at the end of the state fiscal year, if the Rainy Day Fund exceeds 10% of the total state General Fund revenues for the state fiscal year, the excess would be appropriated from the Rainy Day Fund to the Property Tax Replacement Fund (PTRF) before January 1, 2008, and to the General Fund after December 31, 2007. Current law allows for excess transfers to the PTRF from the Rainy Day Fund to occur if the Rainy Day Fund balance exceeds 7% at the end of a given state fiscal year. This bill would allow the Rainy Day Fund to accumulate larger balances.

The maximum fiscal year-end Rainy Day Fund balance for FY 2007, along with the current and proposed maximum balances for FY 2008 through FY 2009 (estimated based on the December 14, 2006, Revenue Forecast) are presented in the following table.

Fiscal Year	Rainy Day Fund Max Balance @ 7 % of GF (Millions)	Rainy Day Fund Max Balance @ 10% GF (Millions)
2007	$592.3 *	$846.2
2008	$615.8	$879.7
2009	$642.1	$917.3
* Actual fund balance as of 6/30/2006 was $328.1 M. Estimated FY 2007 balance per the FY 2006 year-end statement was $442.7 M		

Background on Rainy Day Fund Balance: The Rainy Day Fund was established in 1982 (P.L. 182-1982) with the first transfers to the Fund being in FY 1985. The purpose of the Fund is to allow the state to collect and maintain general purpose tax revenue during periods of economic expansion for use during periods of economic recessions. Two major functions of the Fund are to provide resources for use when the state needs to adjust its expenditures due to revenue shortfalls, and to restrict resources available to the General Fund in expansionary years, which controls expenditure growth.

P.L. 224-2003 and P.L. 246- 2005 (budget bills) provided that if the budget director determines that there are insufficient funds in the General Fund any time during the fiscal year to meet its statutory obligations, the Budget Agency (with approval of the Governor and after review by the Budget Committee) may transfer amounts necessary from the Rainy Day Fund to the GF to maintain a positive balance in the GF. No funds were transferred under this provision in FY 2003, $44.3 M were transferred in FY 2004, and no funds were transferred in FY 2005 or FY 2006. The Fund balance as of June 30, 2006, was $326.1 M. P.L. 246-2005 also requires the State Budget Agency to transfer $100 M in the RDF at the end of FY 2007 if there are sufficient GF revenues available.

Explanation of Local Expenditures: (Revised) *Review Boards:* This bill would replace the current county boards of tax adjustment (TAB) with county boards of tax and capital projects review (county review board) in each county on January 1, 2009.

Current Tax Adjustment Boards: The seven members of the TAB currently include:
1. One member of the county fiscal body;
2. The executive of the largest city in the county, or, if there is no city, one member of the fiscal body of the largest town;
3. One member of the school board with the greatest AV in the county;
4. Four resident freeholders in the county, appointed by the county commissioners.

The four resident freeholder members of the TAB are entitled to a salary per diem at the same as the rate that the freehold members of the county property tax assessment board of appeals of that county receive.

Counties may, under current law, abolish their TAB. If a county has no TAB, then the tax rates, levies, and budgets are considered approved by the TAB.

County Board of Tax and Capital Projects Review: Under this provision, there would be nine members on the county review board including seven elected members of fiscal bodies in the county and two county residents elected by county voters.

The members would include:
1. One member of the county fiscal body;
2. One member of the fiscal body of the municipality with the greatest AV in the county;
3. One member of the fiscal body of the other remaining cities in the county (or, if there are no cities, of the other remaining towns);
4. One member of the fiscal body of the other remaining towns in the county;
5. One member of the fiscal body of the school with the greatest AV in the county;
6. One member of the fiscal body of the other remaining schools in the county, jointly appointed on a rotating basis (or if there is only one school in the county, another member of that fiscal body);
7. Two county residents elected to a four-year term by county voters; and
8. The county auditor.

If there are only two municipalities in the county, then the three members representing cities and towns would include two members of the fiscal body of the municipality with the greatest AV in the county and one member of the fiscal body of the other municipality. If only one municipality exists in the county then all three members would come from that municipality.

The two county residents elected to the review board would be entitled to a salary per diem at the same as the rate that the freehold members of the county property tax assessment board of appeals of that county receive.

Counties that have abolished their TAB by December 31, 2008, and counties adopt an ordinance by July 2nd of any year would not have tax rates, levies, or budgets reviewed by the review board.

The county review boards would have all powers and duties currently held by a county boards of tax adjustment. The county review board would also have some duties previously assigned to the state's Local Government Property Tax Control Board. These duties include setting initial maximum levy limits for new taxing units.

Elected Members of County Review Boards: Each county would elect two county residents to the County Board of Tax and Capital Projects Review. The impact to local expenditures would include placement of the candidates for the newly created elected positions on the local ballot during the general election. The expenditures to adjust the ballots for these offices would be minimal.

The level of compensation for these offices would determine whether county election boards would require additional administrative time to process any report, notice, or other instrument required to be filed by a candidate under Indiana election code. Persons running for an elected office, under which the compensation is less than $5,000, do not have to file candidate paper work including declaration of candidacy and campaign finance reports. The bill would allow the compensation for the elected county review board members to equal that of members of county property tax board of appeals (PTBOA). County councils currently fix the rate of per diem for PTBOA members.

Capital Projects: Each civil and school taxing unit would be required to adopt a five-year capital projects plan every two years after holding public hearings on the proposed plan. The county review board would be required to provide a written review of the plan. No action may be taken by the taxing unit on a controlled project without review of the plan.

All construction projects in the county with a cost of at least $2M that will be paid with property tax (controlled project), would be reviewed by the board. The board could approve, disapprove, modify and approve, or delay, the projects. The DLGF would not have to approve a debt issue for a project approved by the county review board.

Under this provision, a taxing unit may initiate the petition and remonstrance procedure for approval or disapproval of a project that has been disapproved by the county review board. If the petition prevails, then the taxing unit may undertake the project regardless of the county review board's action.

Personal Property Audits: Under current law, the township assessor or their contractor, is required to examine and verify the accuracy of each personal property return and, if appropriate, compare the return to the taxpayer's books. Township assessors must forward copies of all personal property tax returns with AV exceeding $150,000 to the county assessor who, in turn, forwards these returns to the DLGF.

A board of county commissioners, a county assessor, or an elected township assessor may currently enter into a contract for the discovery of property that has been undervalued or omitted from assessment. Contractors may not audit property if its assessment is under appeal or has not yet been finalized. The auditor may create a special nonreverting fund in which to deposit additional taxes from under-assessed valuations and from which the contractor is to be paid.

Under this proposal the contractor is limited to examining returns over the previous three assessment years, and they may also audit property for which a return has not been filed. The contractor is required to notify the taxpayer in writing that the taxpayer's returns will audited and the years over which the audit will cover.

Background Information: According to the DLGF, there is a contractor available who, as of September 2006, has completed audits for about 13 counties. Using Census data, this contractor estimated that there are potentially 68,000 personal property returns whose true tax value exceeds $50,000 (returns with AV $50,000 and over comprise about 93 percent of the total AV), and so far it has audited approximately 13 percent of these returns. Contract costs and fees were approximately $6.5 M, about 30 percent of the total revenue recovered. The contractor estimates the remaining statewide under-assessment at approximately $2.7 B. It is estimated that the annual fee for auditing these returns would be about $29 M. (These costs could be offset by increased revenue collections. See *Explanation of Local Revenues*.)

The contractor classifies and set the audit fees based on the AV in the return. The table below has the fee schedule for audits completed in Marion County in 2004.

Assessed True Tax Value	Audit Fee
$50,000 - $399,999	$700
$400,000 - $999,999	$1,400
$1,000,000 - $4,999,999	$2,200
$5,000,000 - $19,999,999	$6,000
Over $20,000,000	$10,000

The Marion County Treasurer's Office confirmed that the county paid the contractor between $700 and $10,000 per audit based on the size and complexity of the taxpayer's return. The contractor invoiced the county for $7.1 M for audits performed in 2005 and 2006 of which $6.2 M has been paid. If the entire invoice amount is paid, contract fees for the county will be about 57% of the total amount of revenue recovered (versus the estimated 30%). The county also had to refund approximately $2 M to taxpayers whose property was found to be over-valued. After refunds, contract fees will be about 68% of the revenue collected.

County Tax: Allen County Innkeeper's Tax: The Allen County Capital Improvement Board of Managers currently receives at least $1/6^{th}$ of the revenue raised by the tax at a 6% rate. The bill would proportionately adjust the amount received by the Board of Managers to $2/7^{ths}$ of the proposed 7% rate. The Board of Managers' share is currently required to be expended solely for development and promotion of the tourism and convention industry within Allen County. One-sixth of Allen County's FY 2006 Innkeeper's Tax collections would be approximately $550,600. Two-sevenths of the proposed 7% rate would provide an additional minimum transfer to the Board of Managers of approximately $565,800 in CY 2008.

Vanderburgh County Innkeeper's Tax: Revenue from the proposed tax increase would be deposited into the County Tourism Capital Improvement Fund (TCIF). Under current law, revenue in the TCIF may be transferred to Vanderburgh County, a city government, a separate body corporate and politic in

Vanderburgh County, or any Indiana nonprofit corporation. Revenue from the TCIF must be used for capital improvements for the promotion of conventions, tourism, or recreation within Vanderburgh County. Transfers must be approved by the Vanderburgh County Convention and Visitor Commission.

Tax Increment Financing: TIFs in Annexed Areas: This provision applies only to Porter County. If (1) a municipality annexes territory, (2) the annexed territory is served by a school corporation that does not serve any other part of the municipality, and (3) some area within the annexation area is tiffed after the annexation becomes effective, then under this provision, the TIF proceeds would have to be used for expenditures within the annexation area.

Explanation of Local Revenues: (Revised) *State Assumed Levies:* The total revenue for local civil and school taxing units would be unaffected by this provision. Levies assumed by the state would be paid through monthly tuition support payments (school GF) and through payments made by the state to the counties, twice per year. Distributions of other revenues that are based on tax levy would be adjusted so that the distributions would not be affected by the levy reductions.

Homesteads: Under current law, for taxes payable in 2008 and later, homeowners may claim a homestead standard deduction equal to $35,000 or ½ of the property's assessed value, whichever is less. The deduction was equal to $45,000 or up to ½ of AV for taxes payable in only one year, CY 2007.

Under this proposal, both the statutory deduction amount and the limit tied to AV would be increased. For taxes payable in 2008 and later, the deduction would equal $50,000, up to 60% of AV.

The total standard deduction for taxes payable in CY 2008 through CY 2010 is currently estimated at $50 B AV in each year. This provision would increase the estimated total by $19 B to a total of $69 B AV. The increased deduction would shift part of the property tax burden from homeowners to all other property through an increased tax rate.

LOIT for Growth: Under this provision, each county would make an election every two years to fund the allowable increase in the maximum levies (operating growth) for all civil units in the county either from (1) property taxes, or (2) LOIT. The decision would be made by the current LOIT authority in the county (The county council for CAGIT and the county income tax council for COIT).

LOIT distributions that exceed operating growth would be deposited into the county stabilization fund established under this provision. Money in the stabilization fund could be distributed to the taxing units in the county in a year when the certified LOIT distributions are less than the calculated levy growth amount for the year.

If the county imposes a LOIT rate for operating growth, it must impose a LOIT tax rate that would generate the operating growth amount. The rate would be rounded up to the nearest 0.1%. In the initial adoption year, the rate would be doubled, with the excess tax proceeds deposited in the county stabilization fund. The LOIT tax rate may not be reduced or rescinded, but may be increased each year.

The cumulative total statewide operating growth amount is estimated at $136 M in CY 2008, $286 M in CY 2009, and $453 M in CY 2010. If all counties impose a LOIT rate for 2008, 2009, and 2010, operating growth, property tax levies would be reduced by $136 M in CY 2008, $286 M in CY 2009, and $453 M in CY 2010 and a total of $328 M would be deposited into county stabilization funds.

The average statewide LOIT rate for CY 2008 is estimated at 0.27%, with a range of 0.1% to 0.6%. This rate would generate an estimated $136 M in operating growth PLUS $195 M in stabilization fund deposits.

The average statewide LOIT rate for CY 2009 is estimated at 0.28%, with a range of 0.1% to 0.6%. This rate would generate an estimated $286 M in operating growth PLUS $61 M in stabilization fund deposits.

The average statewide LOIT rate for CY 2010 is estimated at 0.41%, with a range of 0.2% to 0.9%. This rate would generate an estimated $453 M in operating growth PLUS $73 M in stabilization fund deposits.

LOIT distributions to replace operating levies would be considered property tax levies for purposes of distributing other revenues on a pro-rata levy base.

LOIT for Tax Relief and Public Safety: Under this proposal, a county that imposes a LOIT rate to pay for operating growth may also: (1) Impose a 0.05% CAGIT or COIT tax rate for public safety; and (2) Impose an additional CAGIT or COIT tax rate to pay for any combination of local property tax replacement credits and homestead credits. There is no limit on the LOIT rate that can be imposed for PTRC and Homestead Credits, but the LOIT rate must be imposed in increments of 0.1%.

The 0.05% LOIT for public safety would raise an estimated $61 M in CY 2008, $62 M in CY 2009, and $64 M in CY 2010 if all counties were to adopt.

Each 1% of LOIT would generate an estimated $1,220 M in CY 2008, $1,247 M in CY 2009, and $1,276 M in CY 2010 for PTRC and/or homestead credits if all counties were to adopt. There is no limit on this rate.

LOIT Adoption Deadline: Under current law, a county may impose, increase, decrease, or rescind CAGIT, COIT, or CEDIT by ordinance if adopted from January 2nd through March 31st, inclusive, of a year. The tax rate change takes effect on July 1st of that year and the county begins receiving proceeds based on the new rate in the next calendar year.

Under this bill the county would adopt the ordinance from April 1st through July 31st, inclusive. The tax rate change would take effect on October 1st of that year. The county would still begin receiving proceeds based on the new rate in the next calendar year.

Levy Appeals: Under current law, there are several different appeals available for civil taxing units. If a civil unit qualifies for one of the appeals, the unit may petition the DLGF for relief. The DLGF currently forwards that petition to the State's Local Government Tax Control Board for consideration. The DLGF then adopts, rejects, or adopts in part, the Control Board's recommendation.

Beginning in 2009, the DLGF would forward the petitions to the county review boards created under this bill. This bill would also eliminate the several appeals and replace them with a broad appeal that would allow a unit to petition for an increase its maximum levy if the unit cannot carry out its governmental functions within its maximum levy limit. This provision could result in an increase in the number of levy appeals.

Personal Property Audits: Under current law, after contract costs have been paid any remaining funds are distributed to the local taxing units. This proposal stipulates that after all contract fees have been paid, up to 20 percent of the remaining funds would be deposited in the county's reassessment fund; the remainder would then be distributed to the appropriate taxing units.

The amount of additional revenue counties may potentially gain from this program would depend on the amount of under-assessed value the audits discover. Under current law, property tax collections that exceed 100% of a taxing unit's certified levy must be deposited into the unit's levy excess fund. Money in this fund may only be used to pay tax refunds and to reduce future tax levies.

Background Information: After auditing 13 percent of eligible returns as of August 2006, the contractor discovered approximately $600 M in under-assessed value, which resulted in a net positive revenue for the counties of approximately $15 M after subtracting out contract fees. The contractor estimates an additional state-wide under-assessment of approximately $2.7 B. Total projected revenue is estimated at $96 M which, after deducting approximately 30 % for contract costs, could result in an additional $67 M for the counties.

Information from Marion County shows that the contractor's audits resulted in the county collecting approximately $12.5 M in taxes, penalties, interest and additional PTRC. After subtracting $7.1 M in contract fees and refunding an additional $2 M to taxpayers because of previous property over-assessment, the county distributed about $3.4 M to its taxing units. For Marion County, the actual contract cost has been about 68% of additional revenue collected.

Circuit Breaker: NOTE: The following analysis of the circuit breaker credit is subject to change as local assessors finalize trending/equalization adjustments and as actual normal assessed value (AV) and levy growth rates become known. The actual credits will differ from these estimates.

Both the current law and proposed credits reduce local property tax revenue. The credits under this bill would result in a smaller revenue reduction than the credits under current law by 2010. This local revenue increase is estimated at $194 M in CY 2010.

Under current law, counties must provide credits against the property tax liability of certain classes of property if the net property tax on the property, after all other credits are applied, exceeds 2% of the property's gross assessed value. The credit equals the amount of tax that exceeds the 2% threshold. Counties are not permitted to borrow money to fund the credit. The credits reduce revenues for local civil taxing units and school corporations in affected counties. The credit applies to (1) All homesteads in Lake County in CY 2007; (2) All forms of residential property – homesteads, apartment complexes, and other residential rental property – in all counties, beginning with taxes payable in 2008; and (3) all other real and personal property, beginning with taxes payable in 2010.

Under this bill, credit threshold would remain at 2% of gross AV for residential property but would increase to 3% for all other real and personal property. Under this proposal and with consideration of other changes made in this bill, the total cost of the credit is estimated at $232 M in CY 2010. The credit would affect an estimated 853 taxing units in 61 counties when fully implemented in 2010. There are a total of about 2,400 taxing units in the 92 counties. The actual fiscal impact depends on local action as it pertains to additional county options for levy reduction and funding other local credits.

By comparison, the cost of the current 2% credit is estimated at $426 M in CY 2010. The current credit will affect an estimated 1,155 taxing units in 74 counties when fully implemented in 2010.

Circuit Breaker Relief Appeal Board: A taxing unit (or group of taxing units) that lose(s) at least 2% of property tax revenue in a year to the circuit breaker would be permitted to petition the board for relief. The unit(s) would submit a financial plan to the board. If the board and all of the taxing units agree to a financial plan, the board could (1) increase the AV threshold; or (2) reduce the credits in the county by a uniform percentage. A reduction in credits would increase local revenues and increase net tax bills. The impact would depend on local action.

County Tax: Allen County Innkeeper's Tax: Raising the Allen County Innkeeper's Tax rate from 6% to 7% is estimated to generate an additional $228,900 in CY 2007, $565,800 in CY 2008, and $582,800 in CY 2009. The estimates do not consider the price elasticity of demand for hotel accommodations in Allen County. As described above in *Explanation of Local Expenditures*, the rate increase would be accompanied by an approximate proportional increase in the amount of revenue transferred to the Allen County Capital Improvement Board of Managers.

Vanderburgh County Innkeeper's Tax: The proposed 2% rate increase would raise approximately $362,500 in CY 2007, $914,200 in CY 2008, and $957,200 in CY 2009. All revenue generated by the 2% rate increase would be deposited into the County Tourism Capital Improvement Fund (TCIF). In order to maintain current revenue distributions to the County Convention & Visitor Promotion Fund and the County Convention Center Operating Fund, the Vanderburgh County Council would have to increase the Innkeeper's Tax from 6% to 8%. In order to fulfill the additional distribution to the TCIF without affecting distributions to the other funds, the innkeeper's tax rate increase would have to occur shortly after the effective date of the bill to assure the TCIF would receive the additional revenue from a 2% rate increase.

Monroe County COIT: Under this provision, Monroe County would be permitted to adopt an additional COIT tax rate of up to 0.25% to fund the operation and maintenance of a juvenile detention center. In order to impose the additional COIT rate, the county must agree to freeze the part of the county property tax levy that is currently used for the operation of the facility. The county would have to pass an ordinance imposing the additional rate by May 31, 2007, in order for the county to start receiving the additional revenue in CY 2008. Assuming that Monroe County adopts the full 0.25% additional COIT rate by May 31, 2007, the additional COIT revenue is estimated at $5.6 M in CY 2008, $5.7 M in CY 2009, and $5.7 M in CY 2010.

Tax Increment Financing: TIF Replacement Levy: TIF allocations are equal to the incremental assessed value in a TIF area multiplied by the surrounding taxing district's tax rate. Since the gross property tax rate would be reduced by the levy reductions in this bill, TIF districts' gross property tax receipts would be reduced. However, the net proceeds (after locally paid credits) in those districts that opt to pay PTRC-like credits may or may not be reduced because PTRC will cease to exist.

This bill would impose a tax on property within the taxing district that contains the TIF district to raise the amount of net TIF revenue that would be lost due to the school general fund levy reductions in this bill. The body that created the TIF district may reduce or eliminate this additional levy.

In taxing districts where the TIF AV comprises more than 10% of the total AV, the replacement levy would be limited to the lesser of the revenue loss or the proceeds from a 10% tax rate increase. These districts may appeal to the DLGF for a distribution from the state General Fund if the district has imposed the 10% rate increase. If the DLGF denies the distribution, then the rate increase for the replacement levy may exceed the 10% tax rate limitation.

Abatements: Under current law, new or used manufacturing, research and development, and logistic equipment may qualify for property tax abatements. The property, whether new or used, must be acquired in an arms length transaction from an unrelated seller. Under this bill, only property previously used in

Indiana would be subject to the arms length sale rule. New or used property that has never been used in Indiana could be acquired in any other manner and qualify for an abatement. The impact of this provision on the total number and value of abatements in Indiana is not known.

Assessments: Under current law, gaming riverboats are assessed as real property. For the 2002 Pay 2003 tax year, the boats were assessed according to schedules published in the real property assessment guideline incorporated into the DLGF's real property assessment rule. Beginning with taxes payable in 2007, the assessment is covered by the DLGF's annual real property adjustment (trending) rule. Under the trending rule, assessors may use comparative sales to value the property.

This bill would require assessment of water based adult entertainment centers, including gaming riverboats, at the lesser of three methods: (1) Reproduction cost less depreciation; (2) Comparative sales; or (3) Capitalization of income. The bill specifies that the sales data used in the sales approach must exclude the value attributable to licenses, fees, and personal property. The assessor would not be required to appraise the property under all three methods if the assessor and taxpayer can agree on one approach.

The impact on the assessment of riverboats depends on the local assessor's approach to assessment under the current assessment rule. An assessment under this provision would most likely result in a lower assessment than an assessment based on pure comparative sales.

State Agencies Affected: Department of Local Government Finance; Office of Management and Budget; Department of Revenue; State Board of Accounts; State Board of Finance.

Local Agencies Affected: All; County assessors; Township assessors; County auditors; Allen County; Monroe County; Vanderburgh County.

Information Sources: Barry Wood, Director, Assessment Division, DLGF, 317-232-3773; Cindy Land, Marion County Treasurer's Office, 317-327-4040; LSA parcel-level property tax database; Local Government Database; OFMA Income Tax databases.

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